



IDAHO LEGISLATURE BUDGET WATCH

December 2003

Legislative Services Office, Budget & Policy Analysis

Big Picture Update; Continued Strength

Strong November revenue collections exceeded DFM's revised forecast by \$10.4 million, bringing the year-to-date collections \$30.2 million ahead of the forecasted amounts. This puts the estimated year-end balance for FY 2004 at about \$68.0 million. This year-end balance is not to be construed as a "surplus", since this estimated year-end balance is due to the one-time federal relief we received which totaled \$50 million in revenues and \$30.1 million in Medicaid rate reductions. However, we are getting closer to achieving a structurally balanced budget with each month's positive revenue performance.

These revenue collections to date are very encouraging. Through November, actual collections are coming in at a baseline growth rate of about 5.5% over FY 2003, as opposed to the original legislative estimate of 4.3% and the current executive estimate of 3.2%. Total collections reflect an 18.2% increase after adding the tax law changes that include a sales and cigarette tax increase.

The FY 2005 Budget:

It appears likely that we will have at least a \$70 to \$80 million carryover of revenues from this year into FY 2005. Add this carryover to a hypothetical revenue projection in the 5% to 6% range for FY 2005 and the Governor and Legislature would have about \$175 to \$200 million to

cover two basic elements of the FY 2005 budget puzzle; 1) keeping the state budget as flat as possible, while covering some basic inflationary costs, and 2), maximizing the amount of unspent carryover dollars to offset the sunset of the temporary sales tax in FY 2006. The basic premise under which the Governor and Legislature approved the sales tax increase - that economic recovery would allow the tax to sunset in two years - appears to be unfolding on schedule. The degree of difficulty in executing this fiscal policy will be determined, of course, by the economic picture in Idaho. While projecting revenues a year or two out is still uncertain at this early date, there is some clarity on several budget issues that JFAC and the rest of the Legislature will have to deal with for FY 2005:

1. State employee salaries: A majority of state employees have not received a salary increase since the summer of 2001. If a salary increase is authorized, it would likely take effect July 1, 2004, a span of three years between increases.

2. Health care costs: This is currently the single biggest factor driving the cost of state government. It impacts employee health insurance costs; the cost of Medicaid services to low income Idahoans, the cost of medical services to prison inmates, and the cost of running state hospitals.

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Fiscal Year 2004

REVENUES		Sine Die Estimate	Current Estimate
1.	Beginning Balance	\$ 6,274,200	\$ 15,745,000
FY 2004 Revenue Estimate			
2.	Baseline revenue estimate*	1,828,700,000	1,793,534,900
3.	Statutory changes (sales tax & others)	183,776,500	184,473,000
4.	Plus federal flexible grant funds	0	50,000,000
5.	Transfer for fire suppression costs	0	(11,244,500)
6.	July thru Nov. revenues; over/under to date	0	30,200,000
7.	Total General Fund Revenues	\$ 2,018,750,700	\$ 2,062,708,400
8.	Total Revenues Available	\$2,018,750,700	\$2,062,708,400
EXPENDITURES			
9.	Original FY 2004 Appropriations	\$ 2,004,053,000	\$ 2,004,053,000
10.	Reappropriations	0	2,061,300
11.	Supplemental for Catastrophic Health Fund	0	4,000,000
12.	Medicaid caseload & utilization increase	0	14,986,300
13.	One-time federal Medicaid match reduction	0	(30,391,100)
14.	Total Estimated Expenditures	\$ 2,004,053,000	\$ 1,994,709,500
15.	Estimated Ending Balance	\$ 14,697,700	\$ 67,998,900
*Original estimate based on a 4.3% increase before tax law changes; revised estimate based on a 3.2% increase over FY 2003 actual collections, before tax law changes.			

Monthly Revenue Update

	Total FY04 Forecast*	Forecast % Change from FY03	November Actual Collections	November Compared to Forecast	Year-to-Date Actual Collections	Year-to-Date Compared to Forecast
Indiv. Income Tax	\$882.8	5.4%	\$66.3	\$4.4	\$339.2	\$18.9
Corp. Income Tax	\$96.7	3.8%	\$0.7	\$2.5	\$29.0	\$3.3
Sales Tax	\$865.6	23.6%	\$72.7	\$2.6	\$382.1	\$7.5
Product Taxes	\$45.6	109.6%	\$3.9	\$0.1	\$19.5	(\$0.3)
Misc. Revenue	\$137.5	40.9%	\$3.7	\$0.9	\$47.9	\$0.9
TOTAL	\$2,028.2	15.9%	\$147.2	\$10.4	\$817.7	\$30.2

*The total forecast of \$2,028.2 million represents DFM's August revised forecast, minus the \$13.4 million distribution to local for the repeal of personal property taxes on agricultural equipment, which represents cash that never actually reaches the G

November revenues exceeded the monthly forecast once again, with collections exceeding the forecast by \$10.4 million. Strength was exhibited across the board, as actual collections outperformed the forecast in all five revenue collection categories. It is noteworthy that the category performing best vis-à-vis the revised forecast is the Individual Income Tax. The recent history of this tax, of course, is one of better performance in the first half of the fiscal year, followed by a cratering of collections when taxpayers file in April. There is reason to hope, however, that FY04 will be better, since taxpayers will be filing based on a year (2003) in which the stock market made significant gains, as opposed to the losses of 2001 and 2002.

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3. Medicaid caseload increases: In FY 2001 the number of Idahoans enrolled in Medicaid services was 122,788. In FY 2005 that number is expected to top 184,000. That four-year span has seen an average annual increase of 10.7% in caseload alone. Add to that the whopping increases in the basic cost of medical services and it is easy to see why the Medicaid budget in Idaho and nationally is devouring most of the available discretionary resources in the state budget process. In Idaho, since 1982, the General Fund increase for Medicaid has averaged 13.7% every year! The Department of Health and Welfare's General Fund budget request for Medicaid in FY 2005 is no exception, reflecting an increase of 15.5% simply to keep pace with caseload and medical cost increases. Unfortunately, there are no easy solutions, short of reducing program services; tightening eligibility requirements and/or reducing provider payments.

4. Department of Correction: This budget area is actually one of the encouraging aspects of the budget picture. In the 1980's and 90's inmate population growth averaged close to 10%. This year, Idaho is experiencing relatively flat inmate population growth which may suggest that investments in substance abuse programs and Drug Courts are beginning to pay off.

5. Public Schools and Higher Education: Education issues will be a mix of salary, enrollment and endowment fund considerations. All of the agencies and institutions affected by endowment funds, inside and outside education, are requesting General Funds to replace estimated dedicated endowment fund losses. That budget issue won't be completely clarified until the Land Board makes its final decision in January on the level of endowment allocations.

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